

# MAXIMUS CALIFORNIA HEALTHY FAMILIES PROJECT

Internal Audit Report  
Capitation and Enrollment

January 1, 2008 to June 30, 2008

Internal Audit Report – Capitation and Enrollment  
June 30, 2008

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## SECTION ONE

### Internal Auditor's Report

## SECTION ONE – INTERNAL AUDITOR’S REPORT

Mr. Bruce Caswell, President, MAXIMUS Operations Group  
Reston, Virginia

We performed tests of management’s assertions (Section Four) about the internal control structure with respect to the Capitation and Enrollment processing performed by the MAXIMUS California Healthy Families Project (the Project) during the period January 1, 2008 through June 30, 2008 and its compliance under contract 02MHF026 with the State of California Managed Risk Medical Insurance Board (MRMIB) (Specified Requirements) related to the California Healthy Families program and the Access for Infants and Mothers program (the Programs) during the period January 1, 2008 through June 30, 2008. We also performed tests of the compliance with the Project’s Process Procedures, Work Instructions, and Business Rules over Capitation and Enrollment. The Project’s Process Procedures, Work Instructions, and Business Rules are meant to assure compliance by the Project with the contract provisions. Management of the Project is responsible for the Project’s compliance with the contract requirements. Our responsibility is to express an opinion on the Project’s compliance (management’s assertions) based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Project’s compliance with the Specified Requirements, including compliance with the Project’s Process Procedures, Work Instructions, and Business Rules over Capitation and Enrollment, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Project’s compliance with the Specified Requirements.

Because of inherent limitations in any internal control structure, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assertions (Section Four) with respect to the internal control structure of the Capitation and Enrollment processing performed by the Project and its compliance with the Specified Requirements related to the Programs during the period January 1, 2008 through June 30, 2008, and compliance with the Project’s Process Procedures, Work Instructions, and Business Rules over Capitation and Enrollment were sufficient to meet the stated objectives.

This report is intended solely for the information and use of MAXIMUS Operations Group and the MRMIB, and the auditors of the State of California and is not intended to be and should not be used by anyone other than those specified parties.

*Lurie Besikof Lapidus & Company, LLP*

Lurie Besikof Lapidus & Company, LLP

September 5, 2008

## SECTION TWO

### Executive Summary

## SECTION TWO – EXECUTIVE SUMMARY

### Overview

This report summarizes the results of our internal audit procedures related to the Capitation and Enrollment stated controls and procedures performed by the MAXIMUS California Healthy Families Project (the Project) during the period January 1, 2008 through June 30, 2008. The report covers any exceptions noted during the testing procedures of Capitation and Enrollment and any recommendations to improve the controls in Capitation and Enrollment.

Our testing relied on statistically valid sampling of participant applications to discover any exceptions to the Capitation and Enrollment (some testing made use of 100% re-computation where practical – these areas are noted). Our tests resulted in the exceptions summarized below. However, based on the low percentage error rate in the population tested, we feel that the Project's Capitation and Enrollment operating controls in place during the period January 1, 2008 through June 30, 2008, are producing the desired processing and monitoring results.

### Tests Performed

Our procedures were designed to test the capitation processing, funding split reporting, and eligibility determination performed by the Project and its compliance under the contract with the State of California Managed Risk Medical Insurance Board (MRMIB) related to the California Healthy Families program and the Access for Infants and Mothers program (the Programs) during the period January 1, 2008 through June 30, 2008. The following are the assertions tested based on the Contract provisions.

- **Capitation:**

The system is computing the correct amount of capitation based upon the rate tables provided by the MRMIB. Rate determinations are based upon:

- Participant age category
- Participant County of residence
- Plan selection
- Period of coverage

- **Allowable Funding for the Program:**

The amounts reported to the MRMIB are correctly allocated and summarized based upon the abortion supplement (allowable funding) and the participant's legal immigration status.

For legal immigration status, funding is based on the participant's date of entry to the U.S. and immigrant type. The funding report allocates the capitation amount to state funds based on the following.

The legal date of entry was less than 5 years prior to the coverage period and the participant was:

- lawfully admitted for permanent residence
- granted conditional entry
- paroled into the U.S.
- violence against women act victim

The following groups of immigrants are to be allocated to Federal funding without consideration to the date of entry:

- granted asylum
- refugee admitted to the U.S.
- deportation is being withheld
- Cuban or Haitian entrant
- lawfully residing in any state who are honorably discharged veterans
- the spouse or unmarried dependent or the unmarried surviving spouse
- Amerasian immigrant
- Eligibility Determination/Enrollment Testing:
  - Capitated participants are eligible for participation in the program.
  - Information provided in the 820 capitation files corresponds to the information contained in the case management system.
  - Where recoupments have been performed they were needed and correctly computed.
  - The amounts reported to the MRMIB are correctly allocated and summarized based upon the abortion supplement and the participant's legal immigration status.

### **Sampling Method**

Where sampling was performed, a random selection algorithm was utilized. The sample quantity selected assumed an infinite population with a 95% confidence level, a 5% expected error rate in the population, and a 5% error rate in sampling and testing.

### **Vision Plan Capitation**

We noted one (1) case with two (2) subscribers that contained differences between the amounts independently computed for the vision plan capitation and the amounts reported in the 820 files for the six (6) months being tested. These differences were confined to vision plan 3003 – Safeguard Vision. The differences were a result of three counties (Lassen, Modoc, and Plumas) being discontinued from the plan.

The Project updated the counties covered by this plan; however, the statewide flag was not switched off. As a result, the participants were not force-transferred to another plan and continued to be capitated to plan 3003.

### **Legal Immigrants**

HFP business rules allow a sixty (60) day grace period for the immigration/citizenship documentation to be submitted after the effective date of coverage; a large number of legal immigrants provide immigration documentation at the end of the allowed grace period and the null date of entry cases get updated accordingly. Additionally, MAXIMUS has pro-actively begun to research cases with the null date of entry and is in the process of researching and updating relevant case records. As a result of the case changes from null date of entry to a correct date of entry, we found differences between our recomputed funding allocation for legal immigrants and what was indicated on the funding split report at the date they were produced. Therefore, the testing for legal immigrant funding split is inconclusive.

There are no established rules for restating prior funding splits and recouping the funding. In addition, the current application logic uses the hierarchy where if the date of entry is left null, but the participant's immigration type qualifies them for federal funding, the funding still defaults to the state. The two issues discussed above indicate an opportunity for MAXIMUS to work with the MRMIB to refine both the computations for funding split due to immigration status, along with the development of a method of restating prior funding split reports for updates in the participant immigration status records.

**MAXIMUS Response**

LOI 08-07(*Processing U.S. Citizenship and Eligible Qualified Immigrant Documentation*) received on March 25, 2008 provided additional direction to MAXIMUS on how to process U.S. citizenship and eligible qualified immigrant. As a result, Problem Statement #43303 and MRMIB Enhancement CAR #31087 have been generated for further enhancement of this process. MAXIMUS will continue to work with the MRMIB to refine the logic and the procedures regarding legal immigrants for accurate split funding.

Detailed results along with the tests performed are presented in Section Four - Results of this report.



## SECTION THREE

### Scope and Objective

### **SECTION THREE – SCOPE AND OBJECTIVE**

#### **Scope of the Internal Audit**

The scope of this internal audit engagement was to examine the Project's stated controls and procedures developed to meet the provisions of the Project's Contract with the MRMIB during the period January 1, 2008 through June 30, 2008 related to capitation, funding split, and enrollment eligibility.

#### **Description of Capitation Functions and Procedures**

Capitation will be included for all members who are enrolled on or before the 15th of each service month. Each member should have valid health, dental, and vision plan selection as well as a valid eligibility period to be included in amount capitated. Capitation is successful if the member can be assigned to exactly one rate cell associated with a contract between the plan provider and the State. If any step in the calculation amount fails a capitation error is recorded. All successful Capitations are written into a staging table. HFP 820 flat files are produced in the system on a monthly basis and submitted no later than 18th day of the month. The development staff manually initiates the process that produces these files. These files are written automatically in the format that was agreed by the state.

## **Capitation Contract Requirements**

The capitation calculation and processing performed by the MAXIMUS California Healthy Families Project is governed by the Contract 02MHF026 between MAXIMUS and the State of California Managed Risk Medical Insurance Board (MRMIB).

### **Description of Allowable Funding Functions and Procedures**

#### **Abortion Rate**

The abortion rate information from the “Healthy Families Business Rules Rev: 031505” is as follows:

##### **Abortion Rate Payments**

1. Under federal law, the HFP is not allowed to use Title XXI federal funds to pay for abortions that were not the result of rape or incest, or to protect the life of the mother. However, the State will pay for other abortions in HFP using State funds. Health plans only identify a separate state funded abortion rate as part of the annual rate development process. Effective July 1, 2003, the rate will be used to pay each health plans under a separate State Supported Services contract (a newer federal requirement) and a totally separate monthly invoice with the correct regional separations.
2. The abortion rate will be applied across the entire HFP population (except infants) in each health plan on a per member per month basis, regardless of age or sex. If the parental expansion is implemented, the rate parent abortion rates will be based on the same multipliers used in the parents program. The abortion rates will be provided in March, at the same time as other rates.

#### **Legal Immigrants**

The business rules for legal immigrants are as follows:

1. Legal immigrants are children or parents with lawful immigration status who entered the United States on or after August 22, 1996. These persons must be separately identified in the capitation system because they are not eligible in Title XXI (federal) funding, and their costs must be paid from state funds. However, certain categories of legal immigrants qualify for federal payment status regardless of their entry date. Legal immigrants are identified by the type of immigration status and documentation provided at or soon after the eligibility determination process.
2. Legal immigrants who are not in an exempt status category remain in their state funded only status for five years from their date of entry. When the five-year limit has been reached, the capitation system should remove them from “legal immigrant state funded status category” and be treated as legal immigrants that are fully eligible for federal reimbursement of their costs.
3. There is no difference in the capitation paid for legal immigrants and the rest of the population. The legal immigrant status does not appear on the invoice and is not reported to the health plan. It does appear in the monthly summary information developed by the Administrative Contractor from the capitation data, and given to the Board's contracted Accounting Unit for use in fund draw-downs.

### **Allowable Funding Contract Requirements**

The abortion rate and funding split calculations and processing performed by the MAXIMUS California Healthy Families Project is governed by the Contract 02MHF026 between MAXIMUS and the State of California Managed Risk Medical Insurance Board (MRMIB).

### **Description of Enrollment Functions and Procedures**

Eligibility determination and enrollment must occur within three (3) business days from the date the application was received at the HFP eligibility unit, or three (3) days from the date the application was made complete. HFP eligible applicants are then enrolled into their plans of choice. An effective date is established at the time of enrollment, which will be ten (10) calendar days from the date the person is determined eligible. The application, proof of income, proof of citizenship, immigration documentation, as well as all other correspondence and documentation is stored in the participant case file. Once the HFP enrollment process is complete, eligible applicants receive a welcome call and letter.

If plans withdraw from the Healthy Families Program, a special enrollment period occurs for those enrolled in withdrawing plans. Applicants are notified that they need to select a new plan by mail. Call attempts are also made to notify applicants they need to select a new plan. When an applicant responds with a new valid plan choice, a plan transfer is done using the new plan. When an applicant fails to respond with a valid new plan choice, the applicant is enrolled in their county's Community Care Plan, provided the withdrawing plan was a health plan (if the Community Care Plan is not available in the applicant's zip code, an alternate health plan is assigned). If the withdrawing plan is a dental or vision plan, subscribers are evenly distributed between available plans. Applicants' new plan choices are processed within thirty (30) days of the end of the special enrollment period. MAXe<sup>2</sup> recalculates family contribution amounts once the plan transfer is complete.

### **Enrollment Contract Requirements**

The enrollment processing performed by the MAXIMUS California Healthy Families Project is governed by the Contract 02MHF026 between MAXIMUS and the State of California Managed Risk Medical Insurance Board (MRMIB).

### **Internal Audit Objective**

The overall objective of this internal audit engagement was to verify that the Project's stated controls and procedures to ensure the rules set out by the contract with the MRMIB regarding the capitation, funding split, and enrollment eligibility processes were implemented and operational during the period January 1, 2008 to June 30, 2008.

## SECTION FOUR

### Results

## SECTION FOUR – RESULTS

The components, testing procedures performed and results are listed below.

Assertion	Audit Procedures	Results
<b>Capitation</b>		
The system is computing the correct amount of capitation based upon the rate tables provided by the MRMIB.	<ul style="list-style-type: none"> <li>• <i>Obtained</i> the 820 capitation files for the period January 1, 2008 to June 30, 2008.</li> <li>• <i>Obtained</i> the county number table.</li> <li>• <i>Obtained</i> the capitation rate tables used to compute the capitation amounts.</li> <li>• <i>Recomputed</i> capitation for all plans (100% test) during the period January 1, 2008 to June 30, 2008 independently from the system using generalized audit software.</li> <li>• <i>Compared</i> the health plan capitation amounts computed independently to those computed by the system and reported in the 820 capitation files.</li> <li>• <i>Compared</i> the dental plan capitation amounts computed independently to those computed by the system and reported in the 820 capitation files.</li> <li>• <i>Compared</i> the vision plan capitation amounts computed independently to those computed by the system and reported in the 820 capitation files.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtained six (6) CDs containing the January 1, 2008 to June 30, 2008 820 capitation files without exception.</li> <li>• Obtained without exception.</li> <li>• Obtained without exception.</li> <li>• Recomputed without exception.</li> <li>• No exceptions noted</li> <li>• No exceptions noted</li> <li>• One exception was noted between the amounts independently computed for the vision plan capitation and the amounts reported in the 820 files. The error was</li> </ul>

Assertion	Audit Procedures	Results
		<p>confined to Vision Plan 3003 Safeguard Vision for one family with two subscribers. The difference was a result of three counties (Lassen, Modoc, and Plumas) being discontinued from the plan. Per discussion with MAXIMUS the Project updated the counties covered by this plan; however, the statewide flag was not switched off. As a result, the participants were not force-transferred to another plan and continued to be capitated to plan 3003.</p> <p><b>MAXIMUS Response</b></p> <p>Problem Statement (PS) #47655 was created on July 23, 2008 and the statewide flag for Vision Plan 3003 (Safeguard Vision) was properly set to "No" on July 30, 2008.</p> <p>As a corrective action plan to the PS referenced above, MAXIMUS management will continue to further enhance the Quality Control (QC) and Quality Assurance (QA) activities related to the capitation process. Additionally, the Reports and Plans Manager will review the county monthly report (MM-015 HFP Current Enrollment by County by Plan) during the first ten days of each month to validate that subscribers are enrolled in plan selections only in counties where the plans are open for enrollment.</p>

Assertion	Audit Procedures	Results
<b>Allowable Funding for the Program</b>		
The amounts reported to the MRMIB are correctly allocated and summarized based upon the abortion supplement (allowable funding) and the participant's legal immigration status.	<ul style="list-style-type: none"> <li>• <i>Obtained</i> the "Funding Split" reports provided to the MRMIB for the monthly payment of capitation</li> <li>• <i>Selected</i> a statistically valid sample from the finite month/health plan combinations (144 month/health plan combinations) of the 820 files (Payment Order and Credit Advice) for the period January 1, 2008 to June 30, 2008 (the capitation eligibility sample). The parameters for the sample were: <ul style="list-style-type: none"> <li>▪ A 95% Confidence level</li> <li>▪ An expected error rate in the population of 5%</li> <li>▪ A sampling error rate of 5%</li> </ul> </li> <li>• <i>Recomputed</i> the abortion rate supplement for the selected month/health plan combinations.</li> <li>• <i>Compared</i> the recomputed sample to the appropriate amounts included in the "Funding Split Reports" provided to the MRMIB.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtained without exception.</li> <li>• Selected a sample size of forty-eight (48) month/plan combinations without exception.</li> <li>• Recomputed without exception.</li> <li>• No exceptions noted.</li> </ul>



Assertion	Audit Procedures	Results
	<ul style="list-style-type: none"> <li>• <i>Obtained</i> a listing of all participants identified as “Legal immigrants” during the period from January 1, 2008 to June 30, 2008 using a query of the MAXIMUS case management database.</li> <li>• <i>Requested</i> a copy of the query logic used to obtain the listing of all participants identified as “Legal immigrants” during the period.</li> <li>• <i>Reviewed</i> the query logic to ensure that there were no unintended exclusions from the population derived from the query results.</li> <li>• <i>Applied</i> the appropriate capitation rate to participants identified as “Legal immigrants” for the month/health plan combination.</li> <li>• <i>Compared</i> the result of the capitation rate times the quantity obtained from the query to the amount presented as allocated for Legal immigrants on the Funding Split Report.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtained the listing of all participants identified as “Legal immigrants” without exception.</li> <li>• Obtained the query logic used to obtain the listing of all participants identified as “Legal immigrants” during the period without exception.</li> <li>• No exceptions noted. Per review of the query logic it appears that there were no intended or unintended exclusions.</li> <li>• Applied without exception.</li> <li>• The results were inconclusive. For a discussion see Section 5 – Funding Allocation for Legal Immigrants.</li> </ul>

Assertion	Audit Procedures	Results
<b>Eligibility Determination/Enrollment Testing</b>		
<ol style="list-style-type: none"> <li>1. Capitated participants are eligible for participation in the program.</li> <li>2. The information provided in the 820 capitation files corresponds to the information contained in the case management system.</li> <li>3. Where recoupments have been performed they were needed and performed accurately.</li> <li>4. The amounts reported to the MRMIB are correctly allocated and summarized based upon the abortion supplement and the participant's legal immigration status.</li> </ol>	<ul style="list-style-type: none"> <li>• <i>Obtained</i> the 820 capitation files for the period from January 1, 2008 to June 30, 2008.</li> <li>• <i>Compared</i> the recoupments with the case file to assure the recoupment was computed and performed correctly.</li> <li>• <i>Selected</i> a statistically valid sample from the 820 files (Payment Order and Credit Advice) for the period January 1, 2008 to June 30, 2008 (the capitation eligibility sample). The parameters for the sample were: <ul style="list-style-type: none"> <li>▪ An infinite population</li> <li>▪ A 95% confidence level</li> <li>▪ An expected error rate in the population of 5%</li> <li>▪ A sampling error rate of 5%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Obtained six (6) CDs containing the January 1, 2008 to June 30, 2008 820 capitation files without exception.</li> <li>• No exceptions were noted. All health plan, vision plan, and dental plan recoupments were investigated.</li> <li>• A sample size of seventy-three (73) month/plan combinations was selected without exception.</li> </ul>

Assertion	Audit Procedures	Results
	<ul style="list-style-type: none"> <li>• <i>Traced</i> the detailed participant information contained in the 820 file to the enrollment form image retained in the system. Attributes examined included: <ul style="list-style-type: none"> <li>▪ Age on application agrees to 820 age category code</li> <li>▪ County of residence agrees to 820 county code</li> <li>▪ Income and family size on the application qualify client for HFP and/or AIM</li> <li>▪ Plans selected per application or other documentation agree to the appropriate 820 capitation files</li> <li>▪ Citizenship or immigration documentation is appropriately stored in the case file</li> <li>▪ If the client qualifies as a “Legal Immigrant” per definition, the participant is properly accounted for in the Funding Split Report. I.e. trace to the query results for the Legal immigrant for the capitation funding split.</li> </ul> </li> <li>• <i>Recalculated</i> eligibility manually for the participants being examined based on the information contained in the system.</li> </ul>	<ul style="list-style-type: none"> <li>• No exceptions were noted. All detail in the 820 files was successfully traced to the image retained in the system.</li> <li>• No exceptions were noted in the manual recalculation of eligibility for the sample of seventy-three (73) participants.</li> </ul>

## SECTION FIVE

### Funding Allocation for Legal Immigrants

## SECTION FIVE – FUNDING ALLOCATION FOR LEGAL IMMIGRANTS

The testing for the Legal Immigrant funding split covered the period from January 1, 2008 through June 30, 2008. To perform the funding split testing, we obtained the capitation files (820 files) produced during the examination period January 1, 2008 to June 30, 2008. We then obtained a list of the participants that were classified as Legal Immigrant during the examination period.

Currently, logic is written into the application database forcing all funding where participants with null dates of entry be allocated to state funding.

HFP business rules allow a sixty (60) day grace period for the immigration/citizenship documentation to be submitted after the effective date of coverage; a large number of legal immigrants provide immigration documentation at the end of the allowed grace period and the null date of entry cases get updated accordingly. Additionally, MAXIMUS has pro-actively begun to research cases with the null date of entry and is in the process of researching and updating relevant case records. As a result of the case changes from null date of entry to a correct date of entry, we found differences between our recomputed funding allocation for legal immigrants and what was indicated on the funding split report at the date they were produced. Therefore, the testing for legal immigrant funding split is inconclusive. There are no established rules for restating prior funding splits and recouping the funding. In addition, the current application logic uses the hierarchy where if the date of entry is left null, but the participant's immigration type qualifies them for federal funding, the funding still defaults to the state. The two issues discussed above indicate an opportunity for MAXIMUS to work with the MRMIB to refine both the computations for funding split due to immigration status, along with the development of a method of restating prior funding split reports for updates in the participant immigration status records.

### MAXIMUS Response

LOI 08-07(Processing U.S. Citizenship and Eligible Qualified Immigrant Documentation) received on March 25, 2008 provided additional direction to MAXIMUS on how to process U.S. citizenship and eligible qualified immigrant. As a result, Problem Statement #43303 and MRMIB Enhancement CAR #31087 have been generated for further enhancement of this process.

MAXIMUS will continue to work with the MRMIB to refine the logic and the procedures regarding legal immigrants for accurate split funding.